

**MICROFINANCE AND ZAKAT AS COMMUNITY
DEVELOPMENT INSTRUMENTS FOR POVERTY
REDUCTION IN BOGRA DISTRICT, BANGLADESH**

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**UNIVERSITI SAINS MALAYSIA
2013**

**MICROFINANCE AND ZAKAT AS COMMUNITY DEVELOPMENT
INSTRUMENTS FOR POVERTY REDUCTION IN BOGRA DISTRICT,
BANGLADESH**

by

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Thesis submitted in fulfilment of the requirements

for the Degree of

Doctor of Philosophy

June 2013

ACKNOWLEDGEMENT

Alhamdulillah all praised to almighty Allah who has enabled me to complete the Doctor of Philosophy thesis. I would like to express my sincere gratitude and appreciation to several people without whom this thesis would not have been completed. My sincere gratitude goes to my main supervisor, Associate Professor Dr. Zulkarnain Ahmad Hatta for his valuable support, encouragement, comments and guidance throughout the study. I would also like to thank my co-supervisor Associate Professor Dr. Azlinda Azman for her constructive and valuable suggestions. Alhamdulillah, it was my very good luck to have supervisor like them. I am highly indebted to Professor Dr. Sharhidd Booley for his wonderful comments and philosophical thoughts that improved my study. I would like also to thanks Associate Professor Dr. Noraida Abdul Ghani and Dr. K. Premalatha for their productive and critical comments regarding my research methodology and data analysis.

My thanks are also extended to Professor Dr. Ismail Baba, Professor Abu Bakar Siddique Bhyuan and Associate Professor Dr. K.M. Rabiul Karim, Associate Professor Dr. Hasmat Ali, Associate Professor Dr. Aminul Islam, Associate Professor Dr. Mohammad Sariful Islam, Associate Professor Dr. Rabiul Islam, Dr. Sifur Rahman and Professor Dr. Farid Ahmad Sobhani for their valuable comments and suggestions. I am sincerely indebted to Bongkesor Chandra, Area Manager of Grameen Bank in the district of Bogra, Bangladesh who gave me permission for data collection and helped me for getting the list of microfinance beneficiaries. I would thanks to my all respondents for providing their valuable information and being time.

I am grateful to Dr. Nor Malina Malek, Dean School of Social Sciences, and Associate Professor Dr. Sivamurugan Pandian, Deputy Dean Research, School of

Social Sciences for their continuous support to my study. My deepest gratitude goes to Universiti Sains Malaysia for the Fellowship grant (USM Fellowship) and research grant (RU grant). I wish to thank my lab mates Jeevasuthan Subramaniam, Abdur Rauff, Kevin Fernandez, Prodip Kumar, Muthukumaran Lohganathan, Abdelhaque, Tan Bewah, Anamul Kabir, Abdul Hannan, Kawsar, Khalidur Rahman, Fulbar Rahman, and Partiban S. Gopal for their continuous supports, encouragements and enthusiastic assistants. I am also grateful to Encik Abdul Aziz, Puan Roslina Idros; staff of School of Social Sciences for their academic supports. Last but not least, I would like to extend my due appreciation to my parents and family members for their endless support and encouragements. Finally, my deepest beloved and gratitude are to my wife Tanjila Khatun and son Ahmad Nazim for their great sacrifice, support and encouragements to complete the Doctoral thesis.

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LIST OF ABBREVIATIONS

ASA	Association for Social Advancement
ADB	Asian Development Bank
AD	Anno Domini
AIDS	Acquired Immune Deficiency of Syndrome
BNFE	Bangladesh Non Formal Education
BRAC	Bangladesh Rural Advancement Committee
BUSPF	Bogazici University Social Policy Forums
BBS	Bangladesh Bureau of Statistics
BPR	Bank Perkreditan Rakyat
BDT	Bangladesh Taka
CBB	Central Bank in Bangladesh
CGAP	Consultative Group to Assist the Poor
FGD	Focus Group Discussions
GB	Grameen Bank
GO	Government Organizations
GPS	Grameen Pension Schemes
GM	General Manager
IFSW	International Federations of Social Workers
IASSW	International Association of Schools of Social Work
IMF	International Monetary Fund
ICT	Information and Communication Technology
ILO	International Labour Organization
MRA	Microfinance Regulatory Authority in Bangladesh
MFIs	Microfinance Institutions
MDGs	Millennium Development Goals
MOEB	Ministry of Education in Bangladesh
MFB	Ministry of Finance in Bangladesh

MHI	Micro Health Insurance
NASW	National Association of Social Workers
NGO	Non-Government Organization
OECD	Organization for Economic Co-operation and Development
PROSHIKA	<i>Proshikon</i> (Training) , <i>Shikka</i> (Education) and <i>Kaj</i> (Work)
ROSCA	Rotating Savings and Credit Association
SCF	Save the Children Fund
SME	Small and Medium Enterprise
SSPS	Statistical Package For Social Sciences
SHARE	Society for Helping Awakening Rural Poor through Education
UN	United Nations
UNSD	United Nations Statistics Divisions
UNDP	United Nations Development Programme
UNICEF	United Nations Children Emergency Funds
US\$	United States Dollar
USAID	United States of America International Development Agency
WB	World Bank
WHO	World Health Organization
WHOB	World Health Organization in Bangladesh

**PEMBIAYAAN MIKRO DAN ZAKAT SEBAGAI ALAT PEMBANGUNAN
MASYARAKAT DALAM PEMBASMIAN KEMISKINAN DI DAERAH
BOGRA, BANGLADESH.**

ABSTRAK

Tujuan kajian ini adalah untuk membuat penilaian terhadap kesan program-program pembiayaan mikro dalam pembasmian kemiskinan di daerah Bogra, Bangladesh. Walau bagaimanapun, terdapat 45% penduduk Bangladesh hidup di bawah garis kemiskinan. Kemiskinan dari pelbagai dimensi merupakan isu yang serius di Bangladesh dan pembiayaan mikro merupakan salah satu alat yang efektif dan fleksibel dalam membasmi kemiskinan. Objektif kajian ini adalah untuk menilai peranan program pembiayaan mikro dalam membasmi kemiskinan di Bangladesh, menilai keberkesanan program pembiayaan mikro dalam membasmi kemiskinan, mengenalpasti faktor faktor penyumbang kepada kemiskinan yang tinggi, mengandungi analisis peranan zakat untuk meningkatkan pendapatan isi rumah; dan mencadangkan polisi pemansuhan kemiskinan yang akan mengubah taraf kehidupan penduduk miskin di Bangladesh. Data kajian ini dikutip dari daerah Bogra pada tahun 2011. Responden dalam kajian ini terdiri daripada 400 individu yang mendapat faedah pembiayaan mikro daripada Grameen Bank dan mereka dipilih melalui persampelan rawak. Kriteria yang perlu ada pada responden ialah mereka mesti mempunyai pengalaman minima dua tahun dalam pembiayaan mikro dan kriteria ini juga tertakluk kepada sampel yang dipilih. Penggunaan borang soal selidik, temubual mendalam dan perbincangan kumpulan pakar digunakan untuk mendapatkan data bagi menentukan hal ehwal penerima pembiayaan mikro daripada Grameen Bank. Hasil kajian kuantitatif mendapati bahawa tiada hubungan signifikan antara pembiayaan mikro dengan pembolehubah seperti pendapatan isi rumah, peluang pendidikan, pekerjaan, kesihatan, nutrisi, kemudahan sanitasi dan pemeraksanaan

wanita di daerah Bogra. Hanya status perumahan penerima faedah pembiayaan mikro bertambah baik dalam jangka masa keahlian. Hasil kajian juga menunjukkan bahawa peluang pekerjaan, pendidikan, pemerkasaan wanita dan kemudahan kesihatan merupakan faktor yang tinggi yang mempengaruhi tahap kemiskinan. Tambahan pula, hasil kajian ini juga menggambarkan pendapatan individu yang mendapat faedah daripada zakat dan pembiayaan mikro adalah lebih tinggi daripada individu mendapat faedah daripada pembiayaan mikro. Hasil kajian kualitatif pula menunjukkan program pembiayaan mikro di daerah Bogra tidak produktif dan tidak dapat memuaskan majoriti penerima faedah. Penerima pembiayaan mikro masih dalam kancas kemiskinan kerana wang yang dipinjam tidak digunakan dengan sepatutnya. Kajian ini mencadangkan model pengurangan kemiskinan iaitu penggubalan semula polisi politik dan sosial, pengurusan bencana alam, peluang pekerjaan, bantuan kewangan, *zakat*, jaringan keselamatan sosial, sistem kesihatan yang baik untuk orang miskin, institusi pendidikan dan pengetahuan, latihan teknikal dan perkembangan kemahiran, pendidikan vokasional, perkembangan infrastruktur, dan pembangunan kapasiti, keadilan sosial dan hak asasi wanita dan peranan kerjaya pekerja sosial. Akhirnya, kajian ini juga mencadangkan program kerja sosial mesti di integrasikan dengan ekonomi sebagai asas yang lebih efektif bagi memahami dan mencari jalan penyelesaian bagi mengurangkan kemiskinan secara am.

MICROFINANCE AND ZAKAT AS COMMUNITY DEVELOPMENT INSTRUMENTS FOR POVERTY REDUCTION IN BOGRA DISTRICT, BANGLADESH.

ABSTRACT

The purpose of the study was to evaluate the effects of microfinance programs on poverty reduction in the district of Bogra, Bangladesh. The multi-faceted poverty is a serious issue in Bangladesh, and microfinance is considered one of the most effective and flexible tools in the fight against poverty in Bangladesh. However, still about 45% people live below the poverty line in Bangladesh. The objectives of this study were to examine the role of microfinance programs in poverty reduction in the district of Bogra; to evaluate the effectiveness of microfinance programs on poverty reduction; to identify the contributing factors for high dominance of poverty; to analyze the role of *zakat* to increase the household income; and to recommend dependable poverty reduction policy that will improve the living standard of Bangladeshi poor citizenry. This study was based on data collected from Bogra district in 2011. The respondents of the study were 400 microfinance beneficiaries from Grameen Bank recruited with simple random sampling. A self-established criterion that they should have a minimum couple of years of micro finance experiences was applied for their recruitment. Questionnaire survey, in-depth interviews and Focus Group Discussions (FGD) were employed to collect data in order to ascertain the state of affairs of microfinance recipients of Grameen Bank. The quantitative findings suggested that there was no significant relationship of microfinance on specific variables such as household income, education opportunities, employment, health, nutrition, sanitations facilities and women`s empowerment in the district of Bogra. Only housing status of microfinance beneficiaries had improved during their membership periods. The results showed that

employment opportunities, education, women`s empowerment and healthcare facilities were most influencing factors to determining the level of poverty. The findings also showed income of those benefiting from both microfinance and *zakat* was more than those only benefiting from microfinance. The qualitative findings indicated that microfinance programs in Bogra were unproductive and had not satisfied the majority of beneficiaries. An inappropriate use of borrowed money was the main reason for poverty`s chronic prevalence among the microfinance recipients. This study proposed a poverty reduction model that includes political and social policy reformulations, natural disaster management, employment opportunities, financial assistance, *zakat*, and social safety nets, proper healthcare for poor, education and knowledge institutions, technical or skills development training, vocational education, development infrastructure and shelter, women`s empowerment and capacity building, women`s human rights and social justice, and role of social work professions. Finally, this study suggested that social work program has to incorporate basic economic foundations in order to be more effective in understanding and finding solutions to mitigate poverty in general.

CHAPTER 1

INTRODUCTION

This chapter will be a detailed description of background information of the study. The history of microfinance and credit union in the world and Grameen Bank in Bangladesh will be comprehensively discussed here. Microfinance delivery system, method of action and poverty reduction programs of the Grameen Bank are also briefed in this chapter. Finally, the problem statement, research objectives, research questions, research null hypotheses and significance of the study are presented with a logical sequence.

Background of the Study

The prime objective of the study would be examining the impact of microfinance programs in poverty reduction initiatives in Bangladesh. In Bangladesh, the endeavors of formal and informal financial sectors are ineffective to serve the poorer section of the communities (Swope, 2010). It is also perceived informal financial sectors have failed to help the poor to generate their income and reduce the intensity of poverty. An effective poverty reduction program will only consider the poor as change agents. The poor do not need aid; they need opportunity to get empowered to improve their living standard (Swope, 2010).

Multidimensional poverty is a current global issue and nationally exists in Bangladesh. Microfinance is considered as one of the most important programs for poverty reduction. There are larger numbers of microfinance programs executed by Micro-Finance Institutions (MFIs) to reduce poverty in the country. It is also conceded by a good number of economists and MFIs that the programs are successful in the poverty reduction in Bangladesh. However, it is estimated nearly 45% of the country's population lives below poverty line (Bangladesh Bureau of

Statistics, 2010). The study established the role of microfinance programs and *zakat* and evaluated the effectiveness of microfinance programs on poverty reduction in Bangladesh. This study also has recognized the contributing factors for high dominance of poverty among the microfinance beneficiaries in Bangladesh. Finally a dependable poverty reduction strategy is recommended to improve the living standard of poor Bangladeshi microfinance receivers.

History of Microfinance and the Credit Union in World

Microfinance is an area which has been subjected to debate of scholars in the field of poverty reduction globally as well as nationally in Bangladesh. Savings and credit groups that have been operated for centuries including the “Susus” of Ghana, “Chit funds” in India, “Tandas” in Mexico, “Arisan” in Indonesia, “Cheetu” in Sri-Lanka, “Tontines” in West Africa, and “Pasanaku” in Bolivia, as well as numerous saving clubs and death donation societies are found all over the world (Global Envision, 2006). As it has been acknowledged, microfinance is a small financial assistance provided to selected individuals with inadequate income to enable them to undertake self-employment, financial uplifts, and to promote small entrepreneurship activities (Aghion & Morduch, 2005).

Formal credit and saving institutions for the poor have also been around for decades, providing customers who were traditionally neglected by commercial banks a way to obtain financial services through cooperatives and development finance institutions. One of the earlier and longer-lived microfinance organizations providing small loans to rural poor with no collateral was in the Irish Loan Fund system, initiated in the early 1700s by the author and nationalist Jonathan Swift (Global Envision, 2006). Swift’s idea began slowly but by the 1840s had become a widespread institution of about 300 funds all over Ireland. Their principle purpose

was to make small loans with interest for short periods. At their peak they were making loans to 20% of all Irish households annually. In the 1880s, various types of larger and more formal savings and credit institutions began to emerge in Europe, organized primarily among the rural and urban poor (Global Envision, 2006).

The concept of the credit union was developed by Friedrich Wilhelm Raiffeisen (1870) and his supporter. Their altruistic action was motivated by concern to assist the rural population to break out of their dependence on money lenders and improve their welfare. From the 1870s, the unions expanded rapidly over a large sector of the Rhine Province and other regions of the German States. The cooperative movement quickly spread to other countries in Europe and North America, and eventually, supported by the cooperative movement in developed countries and donors, also to developing countries. In Indonesia, the Indonesian people's Credit Banks (BPR) or The Bank Perkreditan Rakyat (BPR) opened in 1895. The BPR became the largest microfinance system in Indonesia with close to 9,000 units (Global Envision, 2006).

Finally, the concept of microfinance was developed in 1976 by Muhammad Yunus, a Bangladeshi economist, as a means of reduction the poverty and improving the lives of the very poorest inhabitants in Bangladesh. Microfinance programs and institutions have been created in many other nations in Asia, Africa, and Latin America and similar programs has been established to aid poorer individuals in developed countries who do not qualify for the conventional loans (Grameen Bank, 2012).

History of the Grameen Bank in Bangladesh

A discussion on the historical development of Grameen Bank is inevitable in this context for various reasons. Firstly, it is a flagship organization with a track

record of two decades. Even though Grameen Bank's prime objective was to provide microfinance assistance to the needy people, it took up the responsibility of creating social capital to achieve its non-negotiable goal of poverty reduction in Bangladesh. Secondly, such a study examines how an organization like Grameen Bank has survived various crises such as major natural disasters, borrowers protest, repayment crises and liquidity crises. How could still it creates and maintain social capital for poverty reduction. Thirdly, the organization has gone through a full cycle of financing and capitalization beginning with grant based donor funds to soft loans and now to commercial and near-commercial sources of financing (Dowla, 2006).

In 1974, Bangladesh suffered from great famine. Nearly a million people lost their lives and thousands suffered from hunger. To respond to poverty plaguing the streets, Muhammad Yunus, an economics professor at Chittagong University, decided to investigate the affected areas. Muhammad Yunus first efforts were aimed at constructing an irrigation system and increasing the agricultural productivity at the neighboring village Jobra. By digging wells and constricting a water pipe system, the village people of Jobra were able to cultivate on lands that were once infertile. Although Muhammad Yunus succeeded in increasing the agricultural productivity of Jobra, he soon realized that his success in Jobra did little in alleviating the poverty in the streets of Bangladesh (Grameen Bank, 2011).

While thinking on the solution for poverty, Muhammad Yunus gained an unexpected lesson from a lady in Jobra. Sufia Begum was a lady who spent all day making bamboo chairs in the village of Jobra. Despite her long working hours, she had difficulty in escaping poverty. Due to the lack of initial capital, Sufia Begum had to return to money lenders who charged her high interest rates. Muhammad Yunus surveyed the people of Jobra and found out of 42 people were trapped in this vicious

cycle because they lacked US\$27 in total. To relieve these people from poverty, Muhammad Yunus lent them a mere US\$27 from his own pocket free of interest (Grameen Bank, 2009).

In the following year, Muhammad Yunus initiated a research project under the Grameen Bank (Bank of the village) to provide credit and banking services to the local poor. His experiment was a success, and soon Muhammad Yunus microfinance program started receiving attention from the Central Bangladesh Bank. With the support of Central Bangladesh Bank, Muhammad Yunus was given an opportunity to implement his microfinance program in the Tangail district, a region deemed 'hopeless' by the Central Bank (Grameen Bank, 2012). Grameen Bank further expanded its services throughout Bangladesh and supported overseas microfinance programs. For this accomplishment, Muhammad Yunus and Grameen Bank were awarded the Nobel Peace Prize in the year 2006. Today Grameen Bank is owned by the rural poor whom it serves. Borrowers of the bank own 90% of its shares, while the remaining 10% is owned by the government (Grameen Bank, 2009).

The Grameen Bank is a microfinance organization and community development bank started in Bangladesh that makes low-interest small loans microfinance or microcredit– to the impoverished without requiring collateral. As of November, 2010, it has 7.94 million borrowers, 97% of whom are women. With 2,560 branches, Grameen Bank provides services in 84,787 villages, which means it covers all the villages in Bangladesh (Grameen Bank, 2012). The Grameen Bank project came into operation with the following objectives (Grameen Bank, 2008):

1. Extend banking facilities to poor men and women.
2. Eliminate the exploitation of the poor by money lender.

3. Create opportunities for self-employments for the vast multitude of unemployed people in rural Bangladesh.
4. Bring the disadvantaged, mostly the women from the poorest households, within the fold of an organizational format which they could understand and manage by themselves.
5. Reverse the age-old vicious circle of low income, low saving and low investment, into virtuous circle of low income, injection of credit, investment, more income, more savings, more investment, and more income.

Microfinance Delivery System of the Grameen Bank

Grameen Bank delivers microfinance to the very poor in their villages. Its delivery system has the following features (Grameen Bank, 2009):

1. There is an exclusive focus on the poorest of the poor. Exclusivity is ensured by:
 - a. Establishing clearly the eligibility criteria for selection of targeted clientele and adopting practical measures of screen out those who do not meet them.
 - b. In delivering credit, priority has been increasingly assigned to women.
 - c. The delivery system is geared to meet the diverse socio-economic development needs of the poor.
2. Borrowers are organized into small homogeneous group.
3. Special loan conditions that is particularly suitable for the poor. These include:
 - a. Very small loans given without any collateral.
 - b. Loans repayable in weekly installments spread over a year.
 - c. Eligibility for a subsequent loan depends upon repayment of first loan.

- d. Individual, self-chosen, quick income generating activities that employ the skills that borrowers already possess.
 - e. Close supervision of credit by the group as well as the bank staff.
 - f. Stress on credit discipline and collective borrower responsibility or peer pressure.
 - g. Special safeguards through compulsory and voluntary savings to minimize the risk that the poor confront.
 - h. Transparency in all bank transactions most of which take place at centre meetings.
4. Simultaneous undertaking a social development agenda addressing basic needs of the clientele. This is reflected in the “sixteen decisions” adopted by Grameen borrowers:
- a. Raise the social and political consciousness of the newly organized groups.
 - b. Focus increasingly on women from the poorest households, whose urge for survival has a far greater bearing on the development of the family
 - c. Encourage their monitoring of social and physical infrastructure projects, housing, sanitation, drinking water, education, family planning etc.
5. Design and development of organization and management systems capable of delivering programs resources to targeted clientele.
6. Expansion of loan portfolio to meet diverse development needs of the poor.

As the general credit programs gathers momentum and the borrowers become familiar with credit discipline, other loan programs are introduced to meet growing

social and economic development needs of the clientele. Besides housing, such programs include:

- a. Credit for building for sanitary latrines.
- b. Credit for installation of tube-wells that supply drinking water and irrigation for kitchen gardens.
- c. Credit for seasonal cultivation to buy agricultural inputs loan for leasing equipment or machinery, such as, cell phones purchased by Grameen Bank members.
- d. Finance projects undertaken by the entire family of a seasoned borrower.

The mode of operation of Grameen Bank is as follows. A bank branch is set up with a branch manager and a number of centre managers and covers an area of about 15 to 22 villages. The manager and the workers start by visiting villages to familiarize themselves with the local milieu, in which they will be operating, and to identify the prospective clientele, and to explain the purpose, the functions, and the mode of operation of the bank to the local population (Grameen Bank, 2008).

Group of five prospective borrowers are formed. In the first stage, only two of them are eligible to receive, a loan. The group is observed for a month to see if the members are conforming to the rules of the Bank. Only if the first two borrower begin to repay the principle plus interest over a period of six week, do other members of group become eligible themselves for a loan. Since of these restrictions, there is substantial group pressure to keep individual records clear. In this sense, the collective responsibility of the group serves as the collateral on the loan (Grameen Bank, 2007).

Method of Action of the Grameen Bank

The Grameen Bank`s method of action could be illustrated by the following principles (Grameen Bank, 2007):

1. Start with the problem rather than the solution: A credit system must be based on a survey of the social background rather than on pre-established banking technique.
2. Adopt a progressive attitude: Development is a long-term process which depends on the aspirations and commitment of the economic operators.
3. Make sure that the credit system serves the poor, and not vice-versa: Credit officers visit the villages, enabling them to get to know the borrowers.
4. Establish priorities for action viz-a-viz to the largest population: Serve the most poverty- stricken people needing investment resources, who have no access to credit.
5. At the beginning, restrict credit to income-generating production operations, freely selected by the borrower. Make it possible for the borrower to be able to repay the loan.
6. Loan on solidarity groups: Small informal groups consisting of co-opted members coming from the same background and trusting each other.
7. Associate savings with credit without it being necessarily prerequisite.
Combine close monitoring of borrowers with procedures which are simple and standardized as possible.
8. Do everything possible to ensure the system`s financial balance.
9. Invest in human resources: Training leaders will provide them with real development ethics based on rigor, creativity, understanding and respect for the rural environment.

Poverty Reduction Programs of the Grameen Bank

The Grameen Bank has proven that bottoms-up microfinance models could enable the poor to lift themselves from poverty and are sustainable growth mechanism. It uses a participatory, peer supported and multi segment strategy of offer poor rural women the skills and opportunity to achieve sustainable improvement in their livelihoods, and attain dignity and self-reliance. However, it covers a number of income generating activities for poverty reduction and community development, as discussed below:

Microfinance Program

Though the bank was established in 1983 by an ordinance, it started its activities in 1976 as an experimental project. Later it expanded the operation by organizing the poor people and providing them with credit support for income generation and capital and asset building. By December 2010, US\$8.43 billion has been disbursed as credit to about 7,935,519 members in 64 districts through 2,560 branches (Grameen Bank, 2011).

Housing for the Poor

Grameen Bank introduced housing loan in 1984. It became a very attractive program for the borrowers. This program was awarded Aga Khan International Award for Architecture in 1989. Maximum amount give for housing is US\$218 to be repaid over a period of 5 years in weekly installments. The interest rate is 8% 675,883 houses have been constructed with the housing loans averaging US\$190. A total amount of US\$208.86 million has been disbursed for housing loans. During the 12 months from November 2009 to December 2010, 15,117 houses have been built with housing loans amounting to US\$2.75 million (Grameen Bank, 2010).

Micro-Enterprises Loans

Many borrowers are moving ahead in businesses faster than others for many favorable reasons, such as, proximity to the market; and the presence of experienced male members in the family. Grameen Bank provides larger loans—micro enterprise loans—for these fast moving ambitious members. There is no restriction on the loan size. So far, 2,015,789 members have obtained micro enterprise loans. A total of US\$763.11 million has been disbursed under these categories loans. Average loan size is US\$364.79; maximum loan taken so far is US\$23,209. This was used in purchasing a truck which is operated by the husband of the borrower; Power-tiller, irrigation pump, transport vehicle, and river-craft for transportation and fishing are popular items for micro-enterprise loans (Grameen Bank, 2008).

Scholarships Program

Scholarships are given, every year, to the high performing children of Grameen Bank borrowers, with priority given to female children, to encourage them to stay ahead in their classes. Up to December 2010, scholarships amounting to US\$1,82 million have been awarded to 92,076 children. During 2010, US\$714,000 will be awarded to about 27,000 children, at various levels of school and college education (Grameen Bank, 2011).

Education Loans Program

Students who succeed in reaching the tertiary level of education are given higher education loans, covering tuition, maintenance, and other school expenses. By December, 2010, 37,908 students received higher education loans, of them 35,922 students are studying at various universities; 420 are studying in medical school, 672 are studying in become engineer, 894 are studying in other professional institutions (Grameen Bank, 2012).

Grameen Kalyan

Grameen *Kalyan* (Rural Welfare) was registered with the Registered of the Joint Stock Companies in November in 1996. The objective of this program is to provide financial support in the form of loans and grants to the staff and members of Grameen Bank and their families. These funds will promote improved health services and centre, education and training facilities, new and appropriate technologies and other useful services that will help to alleviate poverty of Grameen Bank members and staff (Grameen Bank, 2008).

Grameen Fund

The Grameen Fund is the venture-capital unit of Grameen Bank's family of enterprises dedicated to poverty reduction in Bangladesh. Its emphasis is on providing finance to ventures that are risky, technology-oriented and otherwise deprived of financing from existing formal lending institutions. Grameen fund started operations in February 1994 (Grameen Bank, 2009).

Loan paid off at Death

A borrower could get the outstanding amount of loan paid off by insurance if her husband dies. She could continue to borrow as if she has paid off the loan. Total deposits in the loan insurance savings account stood at US\$70.91 million as of December, 2010. Up to that date, 141, 433 insured borrowers and insured husbands have died and their entire outstanding loans and interest of US\$16.44 million have been paid off by the Bank under the program (Grameen Bank, 2012).

Life Insurances

Each year families of deceased borrowers of Grameen Bank receive a total of US\$0.25 million to US\$0.29 million in life insurance benefits. Each family receives US\$21.42. A total of 119,845 borrowers have died so far. The families collectively

received US\$4.35 million. Borrowers are not required to pay any premium for this life insurance which is paid by the Bank (Grameen Bank, 2011).

Pension Fund for Borrowers

As borrowers grow older they worry about what will happen to them when they could no longer work and earn a living. Grameen Bank addressed that issue by introducing a Pension Fund for old age. It immediately became a very popular program. Under this program a borrower is required to save a small amount, such as US\$0.72, each month over a period of 10 years. The depositor gets almost twice the amount of money she saved, at the end of the period. The borrowers find it very attractive. By the end of December, 2010, the balance under this account totaled US\$363.83 million. A further US\$92.47 million was added during the period from November 2009 and December, 2010. Grameen Bank expects the balance in this account to grow by US\$55.07 in 2010 making the balance to reach US\$385.62 million (Grameen Bank, 2012).

Staff Retirement Benefits Paid

Grameen Bank has an attractive retirement policy. Any staff could retire after completing 10 years or more of service. At the time of retirement, they receive a retirement benefit in cash. It is usually paid out within a month after retirement. Since this benefit was introduced, 7,587 staff members retired and received a total amount of US\$81.32 million in cash. This amounts to US\$10,718.3 million per retiring staff. Average retirement benefit per staff was US\$14,511 (Grameen Bank, 2007).

Grameen Fisheries and Livestock Foundation

Grameen fisheries and livestock foundation was created to provide rural landless specially to the 'have-nots,' replace exploitation with community

empowerment; stagnation with social and economic growth, age old traditions with development and modernity, desperation with hopes, non sensitivity of women with legal rights and gender issues; starvation with food security and nutrition and poverty with sustainable livelihood through an integrated fish crop livestock and dairy development farming system (Grameen Bank, 2010).

Beggar Members Program

Begging is the last resort for survival for the poor, unless they turn to illegal activities. Among the beggars there are disabled, blind, and retarded people, as well as old people with ill health. Grameen Bank has created a special program in 2002, the Struggling Members Program – exclusively for beggars. Over 112,000 beggars have joined the program. Total amount disbursed US\$2.11 million. Of this amount of US\$1.57 million has already been paid off. As a result, 18,900 beggars have left begging and are making a living as door-to-door sales persons. Among them 8,830 beggar have joined Grameen Bank groups as main-stream borrowers (Grameen Bank, 2009).

Technical and Marketing Assistance for Skill Development

There are many poor farmers or entrepreneurs in the rural area of our country whose dream of expanding their business venture by reaching the right market with their produces like vegetables, livestock, and handicraft just a name of few. Despite their great potential, they cannot reach their dream due to unavailability of marketing, technical, financial, and technological support. Subsequently, Grameen Bank provides training for rural poor entrepreneur and farmers that they could handle their business in profitable manner (Grameen Bank, 2011).

Employment Generating Activities

Though all programs of Grameen Bank facilitate to create employment opportunities for Grameen borrowers and the poor people in the country, this program has been initiated by considering the needs of young generation of Grameen Bank members. Under this program, mobile phone servicing training has given of Grameen Bank borrowers. On an average every person earns US\$86 per month (Grameen Bank, 2009). This study considered these programs are essential for poverty reduction and community development. If the Grameen Bank could implement these programs properly poverty will be reduced and it will help for improving living standard in Bangladeshi people.

Principles of *Zakat*

In the religion of Islam, it has a mechanism to assist mitigating poverty, which is called *zakat*. *Zakat* is an important institution in the socio-economic framework of Islam. *Zakat* is an Arabic word which means “purity” and “cleanliness” and it is an act of giving away part of one’s wealth to the poor – a contribution paid once a year on savings of at least 2.5%. In doing so, one purifies one’s wealth and soul.

Zakat is one of the five pillars¹ in Islam, hence, is obligatory on every Muslim who has financial means (*nisab*). *Nisab* is considered an amount equal to the essential needs of a person or family for one year. Basic needs refer to include any or all of the following: Food, clothing, housing, medical treatment and transportation for oneself and one's dependents.

¹There are five pillars in Islam, namely, *Shahadah* (Testimony of faith), *Solah* (Five daily prescribed prayers), *Siyam* (Fasting in the month of Ramadan), *Zakat* (giving of charity) and *Hajj* (Performing pilgrimage to Mecca once in a lifetime if one can afford)

Dependents include spouse, children who are unable to earn their living and parents who are in need. In many modern societies, *nisab* is considered equivalent to a governmentally determined poverty threshold.

Islam has a code of life which includes among other things, the economic side of life. Consequently, the religion has its own scheme of mitigating poverty. *Zakat* is one of the basic principles of the Islamic economy, based on social welfare and fair distribution of wealth. It is the rights of the poor who do not have enough to take care of their basic needs, the needy whose basic needs are met but their income does not take care of other important needs, for those whose sole job is to collect and distribute the *zakat* funds, for freeing a Muslim person from bondage (whether a slave in the old times, or a prisoner of war in our times), for those who are indebted and cannot pay their debts, for the wayfarer (*ibn as-sabil*) who is stranded in a foreign land and cannot get enough money to go back to his homeland, even though he might be rich as long as they are cut off from their wealth. Bangladesh is a Muslim country and therefore, cannot deny the importance of *zakat* for poverty reduction. Hence, this study established the difference of household income between the only microfinance recipients and both microfinance and *zakat* recipients in the district of Bogra.

Problem Statement

The study by Ahmad (2006), approximately 1000 of microfinance institutions and services are in existence and operational in serving 17 million active borrowers in more than total of 85,000 villages in Bangladesh. The largest microfinance sector reaches 37% of Bangladeshi household, which is amongst the highest coverage in the world (Ahmad, 2006). However, the effectiveness of microfinance programs is not

considered to improve the living standards of the Bangladeshi poor communities (Daily Amadershomoy, 2010; Haque & Yamao, 2008; Ullah & Rotray, 2007).

The study of Haque and Yamao (2008) established that the majority of microfinance clients and their households lived in unhygienic and unhealthy environments. Malnutrition and lack of knowledge pertaining to hygiene and physical illnesses were prevalent among the clients and their households. The findings showed that 30% of the recipients were financially wealthier, 81% recipients were illiterate, about 95% lacked access to medical facilities due to shortage of money, 91% recipients borrowed money from at least three microfinance institutions, and 71% recipients indicated that micro-financing had no impact on their lives. The findings of Haque and Yamao did not comply with the popular notion that microfinance effectively contributes to improve living standards of poor.

Ullah and Routray (2007) established that 73% microfinance recipients remained below the poverty line and 74% were unemployed. It is also reported that Sufia Begum, the first customer of Muhammad Yunus, died without food and basic needs. The first village named 'Jobra' where his microfinance projects started in 1976 has the same outlook and the level of poverty remains unchanged (Daily Amadershomoy, 2010). Amid all these remarks, it is vital to scrutinize the effectiveness of micro-financing initiatives in poverty reduction, with special references to Bangladesh.

The major part of this study was dedicated to evaluate the microfinance programs in Bangladesh. There was a scope to study the sustainability of short term gains of poor people in Bangladesh. Therefore, this study attempted to evaluate whether the microfinance projects are imperative for poverty reduction in Bangladesh. This study also intended to suggest adopting the Islamic approach *zakat*

that played a significant role to reduce poverty in Bangladesh. In Bangladesh, a large number of microfinance institutions are being operated to reduce the intensity of poverty. These institutions are constructed on diverse basic settings and having unique programs. It also widely acknowledged that these microfinance programs are not being utilized to its full potential in Bangladesh.

Research Objectives

The general aim of the study is to understand the effect of microfinance programs for poverty reduction in Bangladesh. The following are the specific aims of this study:

1. To examine the role of microfinance programs in poverty reduction in Bangladesh.
2. To evaluate the effectiveness of microfinance programs in Bangladesh.
3. To derive contributing factors of high level of poverty among the microfinance beneficiaries in Bangladesh.
4. To analyze the role of *zakat* in poverty reduction in Bangladesh.
5. To formulate a dependable and sustainable policy that will comprise social work knowledge and serve to enhance the living standard of those suffering from prolonged poverty in Bangladesh.

Research Questions

The following are the specific research question of this study:

1. What are the relationships between microfinance and selected variables (e. g., household income, education, employment, and housing facilities, health and women empowerment) in Bangladesh?
2. What variables influence the level of poverty in Bangladesh?

3. To what extend are the microfinance programs effective in poverty reduction in Bangladesh?
4. What are the contributory factors that have encouraged to high level of microfinance beneficiaries to live below the poverty line in Bangladesh?
5. What is the difference in the level of household income between microfinance recipient and combined *zakat* and microfinance recipient in Bangladesh?

Research Null Hypotheses

The following are the null hypotheses of this study. The alternate hypotheses were presented in Chapter 3 and 4.

1. There is no significant relationship between microfinance programs and adequate household income.
2. There is no significant relationship between microfinance programs and education facilities.
3. There is no significant relationship between microfinance programs and employment facilities.
4. There is no significant relationship between microfinance programs and standard of housing facilities.
5. There is no significant relationship between microfinance programs and health, nutrition and sanitation facilities.
6. There is no significant relationship between microfinance programs and women empowerment.
7. There is no significant relationship of household income between solely microfinance recipients and both of microfinance and *zakat* recipients.

Significance of the Study in Social Work

The scholars and economists mutually agreed that poverty as an economic and social problem. The social work profession and social workers' prime obligation is improving living standard for poor communities around the world. Social work, as an internationally acknowledged profession, reflects certain shared values.

According to the description of the International Federation of Social Workers "The social work profession promotes social change, problems solving in human relationships and the empowerment and liberation of people to enhance well-being". Principle of human rights and social justice are fundamental to social work. Social work grew out of humanitarian and democratic ideals, and its values are based on respect for the equality, worth, and dignity of all people. Human rights and social justice serve as the motivation and justification for social work action. In solidarity with those who are disadvantaged, the profession strives to reduce poverty and to liberate vulnerable and oppressed people in order to promote social inclusion (IFSW, 2000).

Since its emergence, social work as a profession, that promotes human well-being has mainly focused on three types of services: Remedial, preventive and promotive. Social work practices that are concerned with remedial services focus on the treatment of social problems faced by people. These social problems include child abuse, drug addiction, juvenile delinquency, mental illness, alcohol dependency, family conflict and poverty. Social workers were historically the predominant professionals working with and on behalf of poor people (Bogazici University Social Policy Forum, 2004).

One role that deserves increases attention is community development. Community social worker requires skills in community analysis, social planning,

community organizing, and social action. Community development requires the ability to foster economic opportunities for area residents through work on industrial retention, local business development, job training and placement. Community social workers with these skills and experience could fill an important function within community development where professionals are needed to help rebuild poor communities.

Payne (2005) examined the broad notions and expressions of social and community development and their connections with social work. Similar view, Ferguson and Woodward (2009) established that community orientation has historically been closely associated with radical social work theory and practice. Green (2000) showed that community needs profiles could also make social workers better informed about the processes that create and maintain poverty at both local and national levels. Here, for instance, the theoretical links between income deprivation, ill health and low educational achievement could be enhanced by local knowledge about how they play out in a specific community and practice could be adopted accordingly for poverty reduction.

Another role for social workers is community practice. Poverty involves a complex set of interactions between personal characteristics and a community's resources and opportunities. Community practices combine individuals and families with community work. The focus becomes enhancing resources and opportunities along with the present capacities to take advantage of these. As individuals develop, so do communities, and the two become mutually reinforcing. A comprehensive and integrated model that addresses social and economic exclusion and social disintegration is necessary for effective poverty reduction (BUSPF, 2004).

Social work also engages in programs like case work, group work and community work as preventive services and promotes human well-being by reduction of poverty of people to improve their social conditions. Traditionally, social work deals with socially disadvantaged groups and remedial services focused on social problems like poverty. Social worker plays a leading role in developing the knowledge that formed the basis of social work practices to the poverty reduction. However, poverty reduction is an important area of practice for the social work and social workers (BUSPF, 2004).

A different study established, in order to tackle poverty, social workers know how to engage with and mobilize collective action within poor communities. They could explore the ways to reduce financial exclusion and help poor people avoid sub-prime lenders, through the establishment of proper policy. Their intervention is crucial in maximizing opportunities for the development of asset-based welfare schemes in local communities for poverty reduction (Gregory & Drakeford, 2006). While it is important to recognize that not all types of community social work as interventions are appropriate for poverty reduction, a common theme in the literature is that social workers need to work at different levels, combining different social work skills and methods to reduce poverty and improve living standards of their service users (Mantle & Backwith, 2010).

The majority of poor women in Bangladesh are illiterate and they have little knowledge for proper investment, about making effective changes for themselves and their families. Therefore, most microfinance borrowers tend to misuse borrowed money. Consequently, community social work could assist in organizing the community based schooling and consultancy to develop the Grameen Bank borrowers human capital, by improving skills, promoting literacy, and providing job

experience. These human capitals assist the Grameen Bank members for proper investment and reducing poverty. Contentiously, community schools initiatives are rebuilding the capacities of community members through school-based councils that promote leadership and skills (Sukro, Lawson, & Lindeman, 1999). Women are crucial to the development efforts since they are capable in using whatever resources can be ploughed into families at the local level to improve living standard (Ross, 2008).

The development of local leadership among the Grameen Bank members is an important task for community development efforts and poverty reduction in Bangladesh. Community social work is capable to encourage the Grameen Bank members to analyze the economic and social conditions, to identify problems, community assets, locate resources, to bring them together to address the challenges faced by the community, especially poverty in Bangladesh. Midgley and Livermore (1998) suggested that community social workers could apply their skills to harness social capital to promote economic development, including forming community organizations that support local businesses, facilitating cooperative enterprises, and fostering local organizations that initiate economic development projects.

In addition, Yunus (1991) argued that microenterprise development is a popular strategy that and is proliferating worldwide to build small-scale businesses owned and operated by people or groups with low income for reducing poverty. Hence, community social work could influence the concerned Grameen Bank members to identify and implement community based microenterprise and several income generating programs. These microenterprise initiatives provide individuals with employment, self-employment opportunities and also with goods and services

needed locally, thus assisting to rebuild and strengthen local economy for poverty reduction in Bangladesh.

The community social workers also could assist the Grameen Bank members or groups to develop innovative plans for their own communities and operate those plans for effective poverty reduction. In addition, the Grameen Bank members could be sensitized on the utility of their community's wealth as a social tool to invent their own futures and to develop economic well-being for poverty reduction.

Hence, community social work could empower individuals and groups of microfinance borrowers through the provision of employment opportunities and training on income generation activities, raising awareness on education, health, nutrition, sanitation, their rights, problems solving and successful poverty reduction. Through tireless efforts, social work strives to help its clients to cope up with the negative consequences of poverty and create better living conditions for them. Without social workers or social scholar's involvement, it would be difficult to devise a better strategy for poverty reduction, or to create a cheerful community where there is no poverty, inequality unjust and social restlessness.

In conclusion, one of the most important responsibilities of a social worker is to assist individuals, groups, or communities to enhance or restore their capacity for social functioning, to solve their own problems and creating societal conditions favorable to this goal. Therefore, this study objective is to formulate an independent policy which would embrace social work knowledge and assist in improving the living standards of the Bangladeshi people and strengthening the spectrum of social work knowledge and its practices.